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BRITISH BUSINESS PROSPECTS IN INDIA

American interest is directed toward Great Britain's general economic situation by the current negotiations for a multi-billion dollar loan. Since India has long been an important factor in the general picture of British trade, Indo-British business relations merit some attention. Before the war India ranked as the third largest importer of British goods (exclusive of her imports on government and railway account) and vied with Argentina for fourth place on the list of suppliers of goods to Britain.[1] Accordingly, both the present arrangements which regulate almost all of India's import and export transactions and recent British moves which aim at expanding the field of UK exports to India have an important bearing on Britain's general effort to resume a strong trading position in the post-war period. At the same time these regulations and arrangements throw light on Britain's role as primary recipient of dollar supplies for India and the Empire and on the pattern of trade which is currently emerging within the sterling bloc area under British guidance.

Wartime Developments in Anglo-Indian Business Relations

From comments appearing in the financial and economic journals during the course of the war it is apparent that three changes in India's financial and trading position aroused concern among British businessmen in the country: (1) the curtailment of British exports; (2) the substantial rise in imports from the United States; and (3) the problem of liquidating India's large sterling credits.

Though British imports from India were maintained and even increased during the war, British exports to India were drastically reduced, and at one time fell to a little more than half of the pre-war figure.

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1 Pre-war British Foreign Trade by countries (in thousands of pounds sterling)

	UK Exports		UK Imports	
	1937	1938	1937	1938
Union of S. Africa	41,433	39,494	17,914	14,630
Australia	37,520	38,165	71,732	71,842
India	35,842*	33,765	58,247	49,939
USA	31,419	20,484	114,105	117,980
Argentina	20,043	19,338	59,836	38,471
Canada	27,551	22,530	88,848	78,708
New Zealand	20,237	19,205	49,885	46,865

* Excluding Government Stores

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(From Rs. 519.6 million in 1937-38 to Rs. 295.3 million in 1942-43.) Because of the virtual elimination of all other European suppliers from the Indian market, followed in 1942 by the cutting off of Japan and the Occupied East, India has turned to the dominions and Empire for supplies, but she has also booked increasingly large orders with the US. The following table shows these wartime changes in India's general merchandise trade.

COMPARISON OF UK, EMPIRE, AND US TRADE WITH INDIA

Indian Imports
(Rupees in million and percentage of total imports)

YEARS	UK		REST OF EMPIRE		US	
1937-38	519.6	29.9%	432.6	24.9%	128.8	7.4%
1938-39	464.9	30.5	420.8	27.6	97.8	6.4
1939-40	416.1	25.2	515.0	31.1	148.6	9.0
1940-41	359.4	22.9	539.7	34.4	270.1	17.2
1941-42	366.5	21.1	690.0	40	346.0	20
1942-43	295.3	26.7	317.9	25.1	190.0	17.2
1943-44	298.0	25	272.1	22.7	183.9	15.4
Calendar year of 1944	386.3	21.4	352.2	26.3	389.8	21.5

Indian Exports
(Rupees in million and percentage of total exports)

YEARS	UK		REST OF EMPIRE		US	
1937-38	603.0	33.3%	322.9	17.9%	182.6	10.1%
1938-39	555.1	34.1	298.6	17.9	138.8	8.5
1939-40	724.8	35.5	415.8	20.5	244.2	12.0
1940-41	649.3	34.7	516.8	27.7	259.0	13.9
1941-42	770.1	32.5	718.4	20.2	454.0	19.1
1942-43	573.4	30.5	685.2	24.0	277.9	14.8
1943-44	601.9	30.2	683.1	22.9	402.8	20.2
Calendar year of 1944	655.8	30	750.9	23.4	483.2	22.1

At the same time India has accumulated large sterling credits in London amounting to about four billion dollars. Part of this amount represents dollars earned by India's contribution to the London dollar pool[2] but the larger portion of it represents British war expenditures in India.

2 Full details on India's contributions to and withdrawals from the London Pool are not available. Competent sources, however, estimate that India's net contribution to the Pool by the middle of 1944 was about $350 million.

British financial journals have expressed concern lest the war debt to India prove too heavy a burden on British resources.[3] However, as the provision of these goods during the war meant a heavy government-imposed inflation in India the disposition of her sterling claims promises to be a delicate problem.

Wartime Economic Arrangements

Several agencies and controls developed during the war have helped Britain maintain her special position in India's business and commercial life despite wartime dislocations. The success of these measures has paved the way for the resumption of pre-war private business contacts and may well influence the techniques of Indo-British cooperation in the years ahead.

The fall in British exports which affected Britain's general trading position might well have dealt a serious blow to these large British firms in India whose main stock in trade is the marketing of British products. The organization of such public bodies as the Eastern Supply Group Council, the Middle East Supply Council, and the United Kingdom Commercial Co-operation, however, did much to ensure that what trade was available was kept in British hands. The British and Indian Purchasing Missions in the US and British buyers elsewhere helped to supply British outlets in India. At the same time the numerous wartime controls of the government of India have in general been so managed that, despite the drastic cuts in British exports, private foreign firms have not benefited by the contraction to any appreciable degree. Until the end of 1944 India's trading abroad was confined to firms whose Indian business connections had been established before the war.[4] Government of India controls based on the difficult shipping situation kept Indian imports at a minimum. The handling of the bulk of wartime imports through lend-lease and on government account kept Indian importers from developing new contacts to supplement their former British suppliers. Moreover, government operations in wartime of such significant import items from the US as railroad equipment and coal mining machinery is not likely to presage any continued demand for such imports in the post-war period.

Perhaps the most effective wartime protection to British business interests in India, however, was the operation of financial controls for the sterling area. The strict regulation of all foreign exchange operations enabled the Government of India to restrict imports from outside the sterling area largely to such supplies as were not available within the area or to

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3 See June issues of the Economist and the Financial News, 1944
4 See R&A 1346, 7 September

India's essential and most urgent requirements. Present plans for the continuance of these restrictions into the post-war period offer an obvious advantage to British exporters, for the Government of India is not only kept informed of what Indian importers are seeking to buy abroad but it is under an obligation to see that their procurement is within the sterling area if possible.

Indian Factors Affecting Britain's Position

There is little doubt that current moves paving the way for an ultimate transfer of authority from British to responsible Indian hands are influencing the drift in Indo-British business relations. With the forces of political factionalism apparently on the increase, however, the possibility of a significant transfer of such authority at this time seems somewhat remote. For the immediate future the factors most directly affecting British business prospects would appear to be the continuance of the favored position now accorded to British interests in India, the outcome of Indo-British negotiations over the sterling balances, and the terms on which Britain is willing and able to provide capital and technical assistance to forward India's plans for industrialization.

British business has long enjoyed a position of advantage in India. Besides the preferential rates applied to a long and significant list of imports from the UK,[5] the so-called commercial safeguards clauses of the 1935 Government of India Act ensures that British businesses will not be discriminated against either by legislation or by government administrative agencies.[6] British business has also exercised considerable influence through its representatives on the central and provincial legislative bodies. At the same time, in the operation of the Government Stores Act, both British products manufactured in India and Indian products are purchased wherever the quality is suitable, while the Government of India looks to the UK for the purchase of machines and industrial goods not available in India. Early official moves toward the economic development of India have encouraged cooperation from British as well as from Indian business. To date such encouragement has included arrangements to place Indian import orders in the UK through the aid of the India Office and the early removal of many wartime import restrictions as they applied to British goods. While the problem of the sterling balances is still being held in abeyance, British business circles in India tend to favor some offer of British goods and services. At the same time they are stressing India's need for foreign capital and technical assistance and the ease and convenience of looking to Great Britain for such assistance.

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5 R&A SA #1948, August
6 Sections 111 to 121 (inclusive), Government of India Act 1935.